Opinion of the European Economic and Social Committee on 'Smart fiscal policy consolidation strategies — challenges of identifying growth drivers for Europe. How to exploit fully the labour potential of our economies in parallel with the pressing need for fiscal adjustments' (exploratory opinion at the request of the Hungarian presidency)

(2011/C 248/02)

Rapporteur: **Mr DANTIN**

On 15 November 2010, the Permanent Representative of the Republic of Hungary to the European Union, Peter GYÖRKÖS, asked the European Economic and Social Committee, on behalf of the forthcoming Hungarian Presidency, to draw up an exploratory opinion on:

Smart fiscal policy consolidation strategies — challenges of identifying growth drivers for Europe. How to exploit fully the labour potential of our economies in parallel with the pressing need for fiscal adjustments.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 31 May 2011.

At its 472nd plenary session, held on 15 and 16 June 2011 (meeting of 15 June 2011), the European Economic and Social Committee adopted the following opinion by 164 votes to 2 with 9 abstentions.

1. Conclusions and recommendations

1.1 The economic and financial crisis, which started in 2007 and worsened in 2008, has had a serious impact on European countries' public finances, in particular worsening their fiscal situation.

1.2 The need now to relieve national budgets of the costs arising from all the various economic recovery plans, from support to banks – as has occurred in certain Member States – and from a failure to take sufficient account of weak growth in pre-crisis economic policy is leading many Member States to reduce public spending. There is a risk that this choice could result in Member States pulling back from their commitments and reduce the redistributive effect of collective solidarity systems, both in social protection and in public services.

1.3 This approach of a rapid return to a balanced budget, as well as giving rise to considerable social costs, could lead to long-term sluggish growth, largely due to a stifling of demand that will exacerbate budget deficits. These deficits will in turn reduce demand, causing a snowball effect that could push the European economy into an endless downward spiral.

1.3.1 A smart fiscal policy needs to break this spiral.

1.4 'Smart' fiscal consolidation involves a 'smart' balance between income and expenditure and between supply and demand. Sustainable growth must therefore be the primary goal of economic policy and of all other policies.

1.4.1 Sustainable growth must therefore be one of the EU's top-priority objectives.

1.5 To achieve this, it would be good to:

1.5.1 establish more ambitious and comprehensive financial market regulation in order to curb speculation. Otherwise, the continued existence of speculation will negate all the efforts made to achieve 'smart fiscal consolidation';

1.5.2 pursue a fiscal policy for growth, by:

— establishing a European bond to fund infrastructure projects by mobilising savings;

— creating Eurobonds, *inter alia* to reduce debt refinancing costs for struggling eurozone countries;

— making the most of the flexible time frame for consolidation, as a 'big bang' would compromise growth prospects;

1.5.3 use tax policy to drive growth, by:

— making greater efforts to coordinate Member States' fiscal policies, in line with the EU treaties;

— improving cooperation in combating tax fraud by making the best possible use of Eurofisc;

— shifting the tax burden using new sources of revenue, such as financial transaction taxes, energy taxes, levies on financial institutions, levies on CO_2 emissions (subject to reorganisation of the carbon trading market), etc.;

1.5.4 design taxes that internalise the externalities generated by the financial sector's behaviour such that they can help to create fairer conditions in the process of developing and harmonising the European internal market;

1.5.4.1 The Committee welcomes the European Commission's intention to undertake an impact assessment to establish the potential structure and implementation rules for this tax. In any event, no decision should be taken on this tax until the outcome of this assessment is known;

1.5.5 create tomorrow's growth, by:

— implementing the 2020 strategy, which aims in particular to promote sustainable and inclusive growth on the basis of enhanced coordination of economic policies, by addressing the main bottlenecks constraining growth, including those related to the working of the internal market;

— developing and implementing an ambitious and efficient industrial policy that prioritises high value-added, high-tech and high growth-potential sectors, both in industry and in services;

— creating a true European 'Small Business Act';

— focusing on the 'magic triangle' of growth – training, research and innovation. To this end, it would be worthwhile to:

  — continue and step up investment in education and R&D, despite budget cuts, in order to avoid an inexorable impoverishment of the EU;

  — ensure that the training and skills provided match up with the needs of the labour market;

  — amend tax legislation to encourage industry to increase investment in research, development and innovation;

  — make it easier for researchers and innovators to work and cooperate throughout the EU, by working to complete the European Research Area;

  — reduce or eliminate multiple barriers: access to finance for SMEs, the costs of intellectual property rights, reaching agreement on introducing the European patent on the basis of closer cooperation as a matter of the greatest urgency;

  — expand 'competitive clusters' and increase their resources and remit. To this end, establishing a European network could improve the link between research and innovation.

1.6 In putting these policies into practice, where they depend solely on the decisions of each individual Member State, account must be taken of the wide variation in economic performance across the 27 Member States. GDP growth rates, unemployment levels and trends, levels of national debt and spending on R&D all vary widely, although there are discernable patterns.

2. **Introduction**

2.1 The Hungarian Presidency has asked the European Economic and Social Committee to draw up an exploratory opinion on 'Smart fiscal policy consolidation strategies – challenges of identifying growth drivers for Europe. How to exploit fully the labour potential of our economies in parallel with the pressing need for fiscal adjustments'.

2.2 The Committee welcomes this request.

2.3 The issue that it brings to the EESC's attention is one that is already of concern to the Committee and that has featured in its work since the start of the financial crisis.

2.4 This opinion is an opportunity to update the EESC's previous comments, which will form a basis for drafting this contribution, the aim of which will be to expand those comments to respond to the subject of the referral [1].

2.5 To this end, we will start with a brief analysis of the reasons for the crisis, and then look at its consequences and at the economic and social risks of an 'unintelligent' approach to fiscal consolidation, and will ultimately make proposals for promoting the development of sustainable growth, which is the only way of relaunching Europe's economy.

(1) See EESC opinion on *The financial crisis and its impact on the real economy*, OJ C 255, 22.9.2010, p. 10, and EESC opinion on *The Economic recovery: state of play and practical initiatives*, OJ C 48, 15.2.2011, p. 57.

3. **The crisis and its impact**

3.1 The economic and financial crisis, which started in 2007 and worsened in 2008, has had a serious impact on European countries' public finances. Many governments took action to save the financial system, and they also took significant fiscal measures to limit the depth of the recession as much as possible, via their recovery plans. These recovery plans helped the automatic stabilisers to prevent a collapse in economic activity, but also worsened the budgetary situation in numerous countries.

3.2 Although massive public spending during the financial crisis made it possible to maintain market liquidity, the need to relieve national budgets of the costs arising from support to banks – as has occurred in certain Member States – and discretionary measures has led to a situation in which rising unemployment and the additional austerity measures adopted in several countries together pose a threat to economic growth.

3.3 This has resulted in the public deficit in the European Union rising significantly: according to Eurostat projections, it will have risen from 2.3 % of GDP in 2008 to 7.5 % in 2010 in the EU as a whole, and from 2 % to 6.3 % within the eurozone, while during the same period the debt-to-GDP ratio will have risen from 61.6 % to 80 % in the EU-27 and from 69.4 % to 78.7 % in the eurozone. Growth would be 0.7 % in 2010, and unemployment in the EU is expected to continue rising: having gone from 7.1 % in 2007 to 9.1 % in 2009, it is predicted to reach 10.3 % by the end of 2010, which amounts to almost 25 million people, so some 8 million will have lost their jobs as a result of the crisis.

3.4 There is also a risk that the actions taken in certain Member States – which essentially consist in cutting public spending in order to reduce the public debt and balance the budget as quickly as possible – could result in Member States pulling back from their commitment to redistribution under collective solidarity systems. It is therefore a matter of very considerable concern that social protection systems and public services are being degraded just at the time when their role as automatic stabilisers and in effectively absorbing the shock of the crisis has been unanimously welcomed.

3.4.1 **In the Committee's view, it is vital to uphold Europe's social and natural capital**, which are essential factors in increasing growth.

3.4.2 It would destroy the credibility of the EU (and of its Member States) if it were seen by its citizens as being determined to take strong measures to assist a financial and banking sector that bears responsibility for the current crisis, as has occurred in certain Member States, and if, at a time when we need to combat the slowdown in economic growth, the sharp rise in unemployment and increasing job insecurity, and guarantee solidarity via social protection systems and public services, its actions were seen to be ineffective and to penalise ordinary Europeans, who were not implicated in triggering the economic and financial crisis. Such a situation would only further widen the existing gap between the EU and its citizens.

3.5 This rapid return to a balanced primarily involves reducing public spending: quite apart from the social cost this entails, there is also a risk that such an approach will lead to long-term sluggish growth – largely due to a stifling of demand – accompanied by persistent or rising unemployment, and a consequent erosion of Europe's competitiveness at global level.

3.5.1 The risk with budgetary austerity is that it could reduce demand, leading to a recession that would generate further deficits and could push the European economy into a downward spiral.

3.5.2 This shrinking of demand would be particularly harsh given that the gap between rich and poor is getting wider (in France, for example, average earnings of the top 0.01 % best paid increased by 51 % between 1998 and 2005) and that households' purchasing power is automatically falling, partly because of the economic situation but also due to the significant drop in the contribution of wages to value added: the IMF calculated in 2007 that the share of wages and salaries in GDP fell in Europe from 73 % in 1980 to 64 % in 2005.

4. **Towards smart fiscal consolidation**

4.1 The issue is not so much *whether* it is appropriate to return to a balanced budgetary position but *how, who pays,* and *at what pace* in order to facilitate stronger growth.

4.1.1 'Smart' fiscal consolidation involves a 'smart' balance between income and expenditure and between supply and demand. To this end, we absolutely must get back on the path to growth, as part of an expansionary policy to create a favourable environment for consumption and investment, if we are to climb out of the crisis.

4.1.2 Fiscal consolidation is also a function of the demands of monetary policy, which must be pursued such that it can achieve its own objectives of price stability and market confidence whilst still creating the conditions for economic growth.

4.2 *Fiscal policy for growth*

4.2.1 Europe was experiencing insufficient growth well before the current crisis: the target of 3 % growth per year, which is essentially the basis of the Lisbon strategy, has only been hit twice. This lack of growth has in general not been adequately addressed in the economic and fiscal policies developed by governments, and has been compensated for by both public and private borrowing: the financial system must bear much of the responsibility for this borrowing, for example in the form of mortgages. **Sustainable growth must therefore be the primary goal of economic policy and of all other policies. In this context, fiscal consolidation – including the efficient allocation of financial resources – could be a way of finding a path towards restoring balanced public budgets in the medium term without jeopardising the objective of strong growth.**

4.2.2 The financial crisis and the EU economy's problems withstanding the shock demonstrate the need for a new macroeconomic approach. The EESC believes that a more balanced macroeconomic policy that blends supply- and demand-side approaches must constitute an integral part of the European strategy. In a 'financialised' world that favours short-term investments and therefore faces the risk of a slowdown in technological progress, we must move away from growth based largely on speculative bubbles and get back to growth based on consumption and investment, particularly in innovative sectors of the real economy [2] and with a focus on low-carbon production methods that are less destructive of natural resources.

4.2.3 The EU could issue a bond to fund European infrastructure projects. Such a bond would be a key instrument in attracting savings that are currently available and untapped to support the European economy. This must go hand in hand with a coordinated approach to industrial policy [3] that promotes competitiveness, along the lines set out in the Europe 2020 strategy [4]. In this respect, the Committee welcomes the European Commission president's statement to Parliament on 14 December 2010 to the effect that he would push for plans to be put forward on introducing such project bonds; however, the introduction of project bonds must not be an alternative or substitute for the creation of Eurobonds.

4.2.4 The Committee supports the creation of Eurobonds because, as well as making it possible to fund major infrastructure projects that aim to modernise Europe by creating jobs and relaunching growth (as project bonds would do) they would reduce debt refinancing costs for struggling eurozone countries and give a European dimension to the public bond market. Issuing Eurobonds would be further evidence to the market, following the setting up of the European Financial Stability Facility, of the European Union's internal solidarity, and at the same time would demonstrate its political commitment to economic and monetary union and the irreversibility of the euro.

4.2.4.1 This is a common practice in the United States – via the Treasury – and was approved by the European Parliament and the IMF in 2009; it would allow struggling eurozone countries to reduce the cost of servicing their debt and thus give them more leeway to stimulate growth.

4.2.5 Member States with a current account surplus and/or low public debt should be pursuing an expansionary policy to stimulate demand, but they are generally not doing so, for fear of being penalised by the credit ratings agencies. Their role 'is central […] and, as such, cannot be left unsupervised' [5]. In this context, the EESC is concerned about 'the failure to set up a European body for assessing sovereign debt' [6].

4.3 *Growth and taxation*

4.3.1 Taxation is a factor in promoting growth, in so far as it contributes to the smooth operation of the internal market, to competitiveness, to alleviating the burden on public finances, and so on. The Committee finds it regrettable that when it comes to fiscal consolidation the Commission has focused almost entirely on spending, and has neglected revenue: this approach almost universally harms the most socially vulnerable, and hampers growth by stifling demand.

4.3.2 'In line with the EU Treaties, greater efforts should be made to achieve EU-wide coordination of Member States' tax policy (including harmonised tax bases and minimum rates), primarily in those areas in which the tax basis is internationally mobile and the risk of tax evasion and tax competition between Member States is greatest.' The main aim of this EU-level coordination should be to safeguard and raise tax revenues [7].

4.3.3 Greater administrative cooperation is also one of the keys to success in combating tax fraud. The creation of Eurofisc, a decentralised network open to all Member States designed to facilitate swift, targeted action to combat VAT fraud, is a step in the right direction [8]. In its opinion on this subject, the EESC highlighted the need to establish links and cooperation with

(2) See EESC opinion on *The post-2010 Lisbon Strategy*, OJ C 128, 18.5.2010, p. 3.
(3) See point 5.5.1.
(4) See letter from the EESC president to the Commission president dated 31 March 2010.
(5) See point 1.1 of the EESC opinion on *Credit Rating Agencies*, OJ C 277, 17.11.2009, p. 117.
(6) See point 1.4 of the EESC opinion on the *Proposal for a Regulation of the European Parliament and of the Council on amending Regulation (EC) No 1060/2009 on credit rating agencies*, OJ C 54, 19.2.2011, p. 37.
(7) See footnote 2.
(8) Council Regulation (EU) No 904/2010 on *Administrative cooperation and combating fraud in the field of value added tax* (recast). OJ L 268, 12.10.2010, p. 1.

other bodies engaged in the fight against organised crime and money laundering ([9]).

4.3.4 The tax burden should be shifted towards new sources of revenue, such as financial transaction taxes, energy taxes, levies on financial institutions, levies on CO_2 emissions ([10]) (subject to reorganisation of the carbon trading market), etc. Taxing in this way could yield a double dividend: in the short to medium term easing pressure on public budgets and in the longer term helping to redirect resources towards sustainable investment in the real economy in general and in green technologies and sectors in particular ([11]). It could also help in providing new own resources for the European Union budget ([12]).

4.4 *Taxation of the financial sector*

4.4.1 In practical terms, taxation of the financial sector should increase the stability and efficiency of the financial markets by reducing their volatility and the harmful effects of excessive risk-taking ([13]). It therefore seems reasonable to design taxes that internalise the externalities generated by this sector's behaviour such that they can help to create fairer conditions in the process of developing and harmonising the European internal market.

4.4.2 *Financial transaction taxes*

4.4.2.1 The EESC endorsed the principle of a financial transaction tax in its opinion on the report of the de Larosière group ([14]): 'The EESC believes that there is need for a transition from a short-term to a long-term horizon, with bonuses not linked to speculative activities. In this spirit, the EESC supports the idea of a tax on financial transactions. […] The … objective of [this tax] is to raise public money. This new source of revenue could be used to support economic development in developing countries, to finance climate policies in developing countries or to **alleviate the burden on public finances**. The last of these also implies that the financial sector will pay back public subsidies. In the long-term, revenues should provide a new general source for public income' ([15]). A financial transaction tax would also have a welcome leverage effect, leading to changes in the behaviour of market participants.

4.4.2.2 It is interesting to note that the President of the European Commission made a statement on 8 September 2010 in which he endorsed the principle of a tax on financial activities.

4.4.2.3 The EESC feels, in line with its previous opinions, that the EU and the Member States now need an FTT in order to raise money to address budgetary imbalances, fund economic stimulus to promote growth and combat purely speculative activities.

4.4.3 *Financial activities tax*

4.4.3.1 In its broadest form (addition method), a financial activities tax ([16]) is designed to be charged on all profits and wages from the business activities of financial institutions, irrespective of the products they sell.

4.4.3.2 It could be seen as a tax on the value-added generated by companies in the financial sector. This could offset the current low level of this sector's tax contribution, which is due to the fact that many of its operations are exempt from VAT.

4.4.3.3 The revenue produced at European level could be used for fiscal consolidation in the Member States.

4.4.4 The Committee welcomes the European Commission's intention to undertake an impact assessment to establish the potential structure and implementation rules for this tax and to evaluate the range of new financial sector reforms relating to the deposit guarantee scheme, the new capital and liquidity requirements, and so on. This should be used as a basis to strike the right balance between the objective of addressing budgetary imbalances and that of maintaining the banking sector's ability to issue loans and contribute to economic growth and job creation. In any event, no decision should be taken on this tax until the outcome of this assessment is known.

5. **Creating tomorrow's growth**

5.1 Europe is facing some serious threats. These include:

— a 'financialised' world that eludes democratic political control, is in some degree detached from the real economy and favours short-term investment that might slow technological progress. A shift away from real investment towards financial investment also hinders progress in jobs, revenue, demand and public budgets;

([9]) See point 1.10 in the EESC opinion on the *Proposal for a Council Regulation on administrative cooperation and combating fraud in the field of value added tax* (recast), OJ C 347, 18.12.2010, p. 74.
([10]) See footnote 2.
([11]) See footnote 4.
([12]) *The EU Budget Review*, COM(2010) 700 final, 19.10.2010.
([13]) See the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – *Taxation of the financial sector*, COM(2010) 549 final.
([14]) See EESC opinion on *The Report of the de Larosière Group*, OJ C 318, 23.12.2009, p. 57.
([15]) See point 1.10, 'Summary and conclusions', in the EESC opinion on *A financial transaction tax*, OJ C 44, 11.2.2011, p. 81.
([16]) Proposal by the International Monetary Fund.

— the breakdown of existing social models combined with the risks of a private understanding between the United States and the major emerging nations that would exclude Europe and would undermine the labour market. In order to meet today's challenges, we need to identify the policy directions that will create tomorrow's growth.

5.2 The EU created the Europe 2020 strategy with the aim of returning to smart, sustainable and inclusive growth. Based on enhanced coordination of economic policies, the new strategy aims to address the main bottlenecks constraining growth at EU level, including those related to the working of the internal market and infrastructure, as well as the need for a common energy policy and a new, ambitious industrial policy. The EU Council has insisted that all common policies, including the common agricultural policy and cohesion policy, should support this strategy and that the strategy should include a strong external dimension ([17]).

5.3 The EESC has set up a steering committee that works closely with the sections, the CCMI, the national ESCs and the observatories on implementation of the strategy, and more specifically on the seven flagship initiatives that are intended to promote progress in terms of growth and jobs. The Committee will issue opinions on the flagship initiatives for achieving the strategy's five headline targets. There needs to be an in-depth examination of the priority **actions,** and **sectors** and stakeholders in order to identify how to implement this new strategy.

5.4 **Priority sectors.** Below is a non-exhaustive list of sectors that are already driving (in some cases) or have the potential to drive (in most cases) this growth, because they are high-tech, provide high value-added and have high growth potential; it includes, of course, both industries and services:

— decarbonised energy, green transport and buildings, etc., which will create 'green jobs' ([18])

— the 'silver economy': bioengineering in healthcare, life sciences, etc. ([19])

— biotechnology ([20])

— digital society, nanotechnology ([21]), robotics, etc.

— agronomy and hydraulic engineering to address the shortage of arable land, redesigning manufacturing processes to reduce waste of raw materials, rare earths processing, etc.

— research in all industrial sectors into more carbon-efficient processes and development methods, creating a new industrial policy concept

— etc.

5.4.1 Education must also be a priority sector that underpins all the others: it is one of the key elements of growth, promoting the creation of human capital that is vital to development. From this perspective, it should be ensured that the skills imparted match up with the needs of the labour market.

5.5 *Priority actions for growth*

5.5.1 Consolidating the single European market must be a top priority for the European Union, as part of the Europe 2020 strategy. In the EESC's opinion, it is the only way of making significant progress – in terms of strong, sustained, fairer economic growth – in Member States' development.

5.5.2 *Implementing an efficient industrial policy*

5.5.2.1 The definition of 'industrial policy' has changed significantly over the years, and it is therefore important to pick out the principles on which to base a precise definition that is appropriate to today.

— The first task is to specify which sectors should be given priority ([22]). Implementation methods will then necessarily be extremely diverse: in some cases, such as energy, major European projects will be needed; other cases will involve capital funding; start-ups and growing companies, in turn, will need support in developing new technologies. Industrial policy must, in any event, be designed to target both the internal market and exports.

— Ultimately, the key constraint is the need to find ways of funding this industrial policy and the long-term growth that it could generate during a period of fiscal adjustment. One method would be to direct European savings on a massive scale towards long-term productive investments ([23]) that are economically and socially viable, i.e. that have significant job creation potential. There could be a problem with significant risk aversion, but this could be overcome using mechanisms for risk-sharing between public authorities and private

([17]) See the Conclusions of the European Council of 25 and 26 March 2010 and the Conclusions of the European Council of 17 June 2010.
([18]) See EESC opinion on *Promoting sustainable green jobs for the EU energy and climate change package*, OJ C 44, 11.2.2011, p. 110.
([19]) See EESC opinion on *Life sciences and biotechnology: a strategy for Europe. Progress report and future orientations*, OJ C 234, 30.9.2003, p. 13.
([20]) See EESC opinion on the Communication from the Commission – *Towards a strategic vision of life sciences and biotechnology: consultation document*, OJ C 94, 18.4.2002, p. 23.
([21]) See EESC opinion on *Nanosciences and nanotechnologies: an action plan for Europe 2005-2009*, OJ C 185, 8.8.2006, p. 1.
([22]) See point 5.4.
([23]) See point 4.2.3.

investors, so that the public authorities would bear the bulk of the long-term risk in the manner of a reinsurer. Another possible approach would be to issue a major European bond ([24]).

5.5.2.2 However, developing a balanced, strong production system will mean deploying two major policies: fiscal and employment. Fiscal policy is covered in point 4.3.1; as regards employment policy, the main challenge will be to unlock people's potential for labour-market participation, and thus also to achieve large-scale inclusion in the labour market of young people and older people. At the same time, a wide range of high-quality childcare services should be provided in order to help parents in their working lives ([25]).

5.5.3 *Towards a European 'Small Business Act'*

5.5.3.1 This proposal has been put forward many times but never fully implemented; it is nonetheless necessary. The American SBA, for example, is a highly effective tool because it facilitates funding both for innovation and for traditional investment and gives SMEs guaranteed access to public procurement contracts. The SBA concerns both start-ups and rapidly growing companies. The European SBA, like its counterpart, must use a wide spectrum of tools for both public procurement contracts and financing. The Committee therefore proposes an ambitious SBAE ([26]).

5.5.4 *Towards an education, R&D and innovation policy*

5.5.4.1 A large number of EESC opinions can be cited on this subject ([27]). Essentially, the Committee has consistently stated that R&D and innovation are key activities, since Europe's future position in the world will be determined by the priority and resources it allocates to them.

5.5.4.2 In these times of fiscal constraint, the EU and Member States need to continue investing in education, R&D, and innovation. Such investment should where possible not only be protected from budget cuts, but should be stepped up ([28]). Failure to do so could result in an inexorable impoverishment of the EU, with job losses and lower living conditions for its citizens.

5.5.4.3 The EU should ensure that tax legislation is better geared to providing incentives for industry to increase its investment in research and development ([29]). This adjustment would make it possible to support the development of R&D-focused SMEs during the early years of their existence. Given the strategic role of SMEs in the EU economy, the EESC recommends that each Member State use an optimum mix of possible tax incentives to facilitate the survival and growth of SMEs in its economy ([30]). At the same time, it would also be advisable to promote or deepen joint projects between research organisations and SMEs, for example under the auspices of national or European public research agencies, in order to bolster cooperation between these stakeholders.

5.5.4.4 In order for R&D to be effective, researchers and innovators must be able to work and cooperate across the EU as easily as within national borders. To this end, the European Research Area ([31]), which should be complete within the next four years, will need to put in place the framework for truly free movement of knowledge, which is the real added value that the EU can bring to national research sectors.

5.5.4.5 Many barriers also need to be reduced, or eliminated: access to finance must be improved, particularly for SMEs; intellectual property rights must be affordable; more ambitious targets must be set; and large procurement budgets must be deployed strategically. Agreement should now be reached on the EU patent as a matter of the utmost urgency. Greater cooperation in this area could be a possible interim solution.

5.5.4.6 The Lisbon strategy stated that the EU should devote 3 % of its GDP to R&D, with two thirds of that amount coming from the private sector. We are nowhere near that target, but it is of vital importance that we reach it, because it would enable us to create 3.7 million jobs by 2020 and to increase annual GDP by almost EUR 800 billion by 2027 ([32]). It is now more important than ever for this target to be the EU's top priority.

([24]) See footnote 19.
([25]) See point 4.2 of the EESC opinion on the *Annual Growth Survey: advancing the EU's comprehensive response to the crisis*, OJ C 132, 3.5.2011, p. 26.
([26]) See EESC opinion *Think Small First: A Small Business Act for Europe*, OJ C 182, 4.8.2009, p. 30.
([27]) In particular those relating to the 7th R&D Framework Programme, e.g. the opinion on *The proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007-2013)*, OJ C 65, 17.3.2006, p. 22.
([28]) *Europe 2020 Flagship Initiative: Innovation Union*, COM(2010) 546 final, 6.10.2010.
([29]) See EESC opinion on *Towards a more effective use of tax incentives in favour of R&D*, OJ C 10 of 15.1.2008, p. 83.
([30]) See point 3.5 of the EESC opinion on *Unlocking and strengthening Europe's potential for research, development and innovation*, OJ C 325, 30.12.2006, p. 16.
([31]) See EESC opinion on *Researchers in the European Research Area: one profession, multiple careers*, OJ C 110, 30.4.2004, p. 3, and EESC opinion on *The Green Paper on the European Research Area – New Perspectives*, OJ C 44, 16.2.2008, p. 1.
([32]) See P. Zagamé (2010): *The costs of a non-innovative Europe*.

5.5.4.7 Finally, setting up competitive clusters has proved a very positive initiative in some European countries. A European network could be created to expand these clusters and increase their resources and remit; this is probably also the best way of improving the link between research and innovation, given that all stakeholders are involved in running them.

6. **Civil society**

6.1 It should be stressed that the wide-ranging impact that fiscal adjustment and the search for paths to growth have on people's daily lives means that social dialogue and civil dialogue need to be absolutely exemplary at both Member State and European Union level.

6.2 Civil society, especially the national ESCs and bodies acting in a similar capacity, must be consulted and involved before decisions are made. A high degree of social partnership is required, because viable and successful choices can be made in such a sensitive area in the medium to long term only if reforms are acceptable to the general public.

Brussels, 15 June 2011.

The President
of the European Economic and Social Committee
Staffan NILSSON